

Voluntary - Public

Date: 7/28/2009

GAIN Report Number: E49056

EU-27

Post: Brussels USEU

Update on EU dairy market situation

Report Categories:

Dairy and Products

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Report Highlights:

On July 22, 2009, the European Commission (EC) released its Communication to the Council "Dairy market situation 2009". The report identifies weak demand in the EU internal market, as well as internationally, not increased milk supplies, as the cause of the current dairy market crisis. However, the report offers few new measures for further alleviating the problem. A halt to the implementation of the soft landing of the dairy quota is dismissed as a viable option, while existing tools for export subsidies or market withdrawal are already fully operational. The report mainly suggests increased Member State (MS) action through increased MS de minimis aid and the implementation of dairy sector aid under Article 68 of the Health Check agreement, as well as strict implementation of individual production quota limitations.

The July 23, 2009 Mancom saw the approval of an extension of intervention buying throughout winter, as well as the removal of the minimum price for cheese eligibility for export refunds.

General Information:

Commission Communication to the Council on the EU dairy market situation.

As EU average dairy prices further decreased to €25.18/100kg in May 2009 compared to €34.76 in May

2008, the European Commission (EC) released a communication ["Dairy market situation 2009"](#) [1] on July 22, 2009. In this report, the EC assesses the current market situation, explaining all the measures have already been put in place to support the EU dairy market, as well as suggesting several further options that could still be invoked under the latest CAP Health Check agreement. The EC further presents the market analysis that is the basis for this market report in a separate [annex](#) [2]. This annex identified weakened demand for dairy products both on the EU internal market as in world markets as the main culprit for the current dairy market crisis. It further identified the fact that retail prices for dairy products had barely decreased after the 2007 price spike, despite low farm gate and wholesale prices, as a major reason why demand remains deflated.

In an accompanying [press release](#) [3], Commissioner for Agriculture and Rural Development Fischer Boel asserted: "We have to do all we can to help our milk producers, who are dealing with a dramatic fall in prices. We will continue to use all the measures we possess to stabilize the market. But, as clearly stated by the European Council, we will not reverse our policy of gently phasing out quotas. Putting this into doubt would only create uncertainty and would do nothing to help the situation anyway." After a discussion in the Agricultural Committee, a [European Parliament \(EP\) press release](#) ^[4] called the proposed measures "inadequate", as well as "palliatives".

The dairy market report concludes that the current bad market situation is the result of poor demand, because EU milk production has barely increased at all despite the production quota increases in recent years. The report points out that, after the 2007 price spike, consumer prices for dairy have barely decreased again despite the large decrease in farm gate milk prices, suggesting that the market is not functioning and retailers increased their margins with depressed consumption as a result. The EC has applied market disappearance measures, Private Storage Aid (PSA), intervention storage and export subsidies, as available in the CAP and beyond even agreed volumes through tendering. With support from the European Council, the EC plans extending the intervention period for butter and skimmed milk powder beyond the August 31st end date and bridging the period to the next period, which starts on March 1, 2010 (proposal [11905/09](#) [5]). In the July 23 meeting, the Management Committee (Mancom) further approved a proposal for the lowering of the minimum price for granting export subsidies for cheese. This will allow subsidized exports of a far larger range of cheaper cheeses. At the same time, the EC is believed to expand the range of dairy products that could benefit from the [EU School Milk scheme](#) [6].

On the milk supply side, this dairy market communication also offers a range of potential measures, which will albeit have a much weaker impact and will mostly rely on MS (co-) funding. While Commissioner Fischer-Boel refuses to reconsider the production quota increases agreed in the Health Check agreement, she suggested that MS can limit milk supplies by strictly imposing superlevy fines to farmers that overshoot

production quota on an individual basis. She even suggested that MS could use these retired superlevy funds for dairy cow slaughter programs, but that an EC funded dairy cow retirement program was not an option because of a lack of budget. Other tools for addressing dairy sector problems at MS level are the option to temporarily increase de minimis state aid to €15,000 per year per farm, up from €7,500, as well as redirecting up to ten percent of direct payments towards aid for dairy farmers under Article 68 of the Health Check agreement. This would include early retirement of the least competitive dairy farmers from the market.

Update on EU dairy market support – Mancom of July 23, 2009-07-27

At the Mancom meeting of July 23, 2009, another 23,802 MT of SMP were bought into intervention storage in the seventh tender at an unchanged price from previous tenders of €167.90/100kg. The ninth intervention tender for butter also accepted another 815MT at an unchanged price of €220/100kg.

EU dairy storage accepted as of July 23, 2009 in MT	
Butter intervention	82,777
Butter private storage	117,151
SMP intervention	255,180

Source: European Commission

Levels of export subsidies were maintained at the previous level, despite requests from several MS for an increase. Nevertheless, the abolition of the minimum price for cheese for eligibility for export subsidies will result in an increase in subsidized exports of EU cheese. Commissioner Fischer-Boel expects that this latest move might well make the EU hit its WTO volume ceiling for subsidizing cheese exports in the new GATT year 2009-2010.

[1] http://ec.europa.eu/agriculture/markets/milk/report2009/index_en.htm

[2] http://ec.europa.eu/agriculture/markets/milk/report2009/annex_en.pdf

[3]

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1172&format=HTML&aged=0&language=EN&guiLanguage=en>

[4] http://www.europarl.europa.eu/news/expert/infopress_page/032-58693-203-07-30-904-20090722IPR58690-22-07-2009-2009-false/default_en.htm

[5] <http://register.consilium.europa.eu/pdf/en/09/st11/st11905.en09.pdf>

[6] http://ec.europa.eu/agriculture/markets/milk/schoolmilk/index_en.htm